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C E N T R A L I N T E L L I G E N C E A G E N C Y

Memorandum



THE COST OF THE SINO-SOVIET BLOC
ECONOMIC SUPPORT TO CUBA

16 Nov 62

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16 November 1962

CENTRAL INTELLIGENCE AGENCY

MEMORANDUM: The Cost to the Sino-Soviet Bloc of Economic Support to Cuba

1. This paper attempts to measure the cost of support to the Cuban economy thus far incurred by the Sino-Soviet Bloc and further attempts to estimate the cost of future support under certain assumptions. Cost is here defined as the Bloc's net export of goods and services to Cuba plus the amount of convertible currency payments made to Cuba for a portion of the Bloc's sugar purchases. The period covered is 1 January 1960 through 30 September 1962. Bloc-Cuban economic relations prior to 1960 were, for the purposes of this study, unimportant. Data for the period after September 1962 are not yet available.

Cost to Date

2. From the beginning of 1960 through September 1962, the Bloc exported about \$1,190 million in goods and services to Cuba and received approximately \$1,025 million worth of imports from Cuba in exchange. The net export to Cuba of \$165 million in goods and services was augmented by an estimated \$70 million in convertible currency payments. Thus, total gross cost of economic support to Cuba, under our definition, amounted to about \$235 million for the whole period. Table 1 below summarizes these data for the full period. Tables 1A, 1B, and 1C break the data down by individual years of the period.

3. Of the full \$235 million in gross cost, relatively little was financed through the economic development credits extended by the Bloc.

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they probably have not exceeded \$50 million out of the total of \$450 million in credits extended. Cuban

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Table 1

ESTIMATED COST OF SINO-SOVIET SUPPORT TO CUBAN ECONOMY,
JANUARY 1960 - SEPTEMBER 1962

	millions of \$US			
	EUROPEAN COMMUNIST			
	<u>USSR</u>	<u>SATELLITES</u>	<u>CHINA</u>	<u>TOTAL</u>
Bloc Exports to Cuba (CIF) a/	✓ 750	✓ 240	✓ 185	✓ 1,175
Bloc Imports from Cuba (FOB)	- 610	- 195	- 220	- 1,025
Technical Services	✓ 9	✓ 5	✓ 1	✓ 15
Balance of Goods & Services	✓ 149	✓ 50	- 34	✓ 165
Convertible Currency Payments	✓ 70	✓ 5	- 5	✓ 70
Total Cost	<u>✓ 219</u>	<u>✓ 55</u>	<u>- 39</u>	<u>✓ 235</u>

a. Exports are valued on a CIF basis and imports on an FOB basis because the Bloc has provided virtually all of the shipping service involved either with its own vessels or with vessels chartered by it. Therefore, Bloc exports to Cuba consist of merchandise plus shipping service while imports from Cuba consist only of merchandise.

Table 1A

ESTIMATED COST OF SINO-SOVIET SUPPORT TO THE CUBAN ECONOMY,
1960

	millions of \$US			
	EUROPEAN COMMUNIST			
	<u>USSR</u>	<u>SATELLITES</u>	<u>CHINA</u>	<u>TOTAL</u>
Bloc Exports to Cuba (CIF)	✓ 85	✓ 20	✓ 20	✓ 125
Bloc Imports from Cuba (FOB)	- 100	- 15	- 30	- 145
Technical Services	✓ 1	—	—	✓ 1
Balance of Goods & Service	- 14	✓ 5	- 10	- 19
Convertible Currency Payments	✓ 35	✓ 5	—	✓ 40
Total Cost	<u>✓ 21</u>	<u>✓ 10</u>	<u>- 10</u>	<u>✓ 21</u>

Table 1B

ESTIMATED COST OF SINO-SOVIET SUPPORT TO THE CUBAN ECONOMY,
1961

	millions of \$US			
	USSR	EUROPEAN COMMUNIST SATELLITES	CHINA	TOTAL
Bloc Exports to Cuba (CIF)	✓ 325	✓ 120	✓ 85	✓ 530
Bloc Imports from Cuba (FOB)	- 310	- 90	- 95	- 495
Technical Services	✓ 3	✓ 3	-	✓ 6
Balance of Goods & Services	✓ 18	✓ 33	- 10	✓ 41
Convertible Currency Payments	✓ 22	✓ -	- 5	✓ 17
Total Cost	✓ 40	✓ 33	- 15	✓ 58

Table 1C

ESTIMATED COST OF SINO-SOVIET SUPPORT TO THE CUBAN ECONOMY,
JANUARY-SEPTEMBER 1962

	millions of \$US			
	USSR	EUROPEAN COMMUNIST SATELLITES	CHINA	TOTAL
Bloc Exports to Cuba (CIF)	✓ 340	✓ 100	✓ 80	✓ 520
Bloc Imports from Cuba (FOB)	- 200	- 90	- 95	- 385
Technical Services	✓ 5	✓ 2	✓ 1	✓ 8
Balance of Goods & Services	✓ 145	✓ 12	- 14	✓ 143
Convertible Currency Payments	✓ 13	✓ -	✓ -	✓ 13
Total Cost	✓ 158	✓ 12	- 14	✓ 156

payments for this portion of the Bloc's export surplus are scheduled to be spread over a period of about ten years.

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5. It is evident from Table 1 that the primary burden of support to Cuba has fallen on the USSR. We estimate that Communist China has an import surplus from Cuba and is probably a net recipient of convertible currency payments from Cuba. The European Satellites have accumulated an export surplus to Cuba of about \$50 million in addition to about \$5 million in hard currency payments made in 1960 before their bilateral trade agreements with Cuba were signed. The Satellites' surplus to Cuba, however, probably has been consolidated with the USSR surplus through the multilateral clearing system which Cuba and the European members of the Bloc have operated since late 1961. Thus, total cost to the USSR for the whole period was about \$275 million. This figure represents only a minimum cost estimate, however, since there are certain implicit cost factors not considered thus far in the analysis.

6. First, it must be noted that since the beginning of 1961 all Bloc countries have paid a premium price of 4 cents per pound for Cuban sugar. This price has averaged about 40 percent higher than world market prices during the period in which it has been paid. Logically, Bloc sugar imports should be valued at world market since this represents, in theory at least, the real value of the import. The difference between the world market price and the premium price then would be added to the cost of supporting the Cuban economy. Discounting Bloc imports of Cuban sugar to world market value, the Bloc's export surplus to Cuba would be increased by about \$200 million and our estimate of cost correspondingly increased. The estimate of the cost of the Bloc's Cuba operation which appears in the tables does not discount imports to world market value because of

unknowns surrounding Bloc pricing policies. It is possible that the premium price policy is merely a propaganda device, the concrete effects of which are being offset by the Bloc countries through the establishment of artificially high prices on exports to Cuba. Evidence on this question is mixed, however, and, for the purposes of this paper, the matter has been left open. Thus the estimate of cost which appears in Table 1 should be taken as a minimum.

7. Secondly, it must be recognized that even the world market price would overstate the real value to the Bloc economies of Cuban sugar imports. There is considerable evidence that increased sugar consumption within the Bloc has been far exceeded in the last two years by the increase in sugar stocks. In the USSR alone, inventories increased during 1961 by an amount equal to almost 70 percent of total Cuban sugar imported. Since sugar represents by far the largest share of imports from Cuba, this means that something over half of all imports from Cuba were probably in excess of Soviet requirements. If this figure is taken as a rough index for the whole period, it appears that Soviet imports from Cuba may have exceeded requirements by as much as \$300 million. This figure would undoubtedly be somewhat larger if the European Satellites were included but the correction probably would be fairly small.

8. The estimated cost of Bloc support to Cuba should properly be adjusted upward to take these surplus imports into account and the figure \$300 million may be taken as probably the maximum adjustment that could be justified.

9. In allowing this excessive accumulation of internal sugar stocks to develop, Soviet planning has thus far displayed a marked degree of rigidity. A serious shortage of livestock feed exists in the USSR and it would be perfectly possible for the Soviets to increase feed supplies through the use of domestic sugar beets while imports from Cuba were used to meet more of the country's refined sugar needs. Thus Cuban sugar could be used to sustain moderate increases in domestic consumption and to help solve a major agricultural problem as well. As yet, there is little evidence to indicate that such a course has been concretely adopted although there are indications that Khrushchev is trying to move in this direction.

10. It is apparent from the above discussions that the simple estimate of cost presented in Table 1 is an understatement of the actual cost of Bloc economic support to Cuba. How much the figure should be adjusted can not be stated with any certainty because of all of the factors mentioned above, but probably the maximum estimate that could be justified would not exceed \$600 million for the whole period.

Effect of Military Buildup on Bloc Delivery of Economic Support to Cuba

11. We do not believe that the Bloc program of military aid to Cuba (begun in mid-1960) has interfered materially with the flow of Bloc economic support to Cuba.

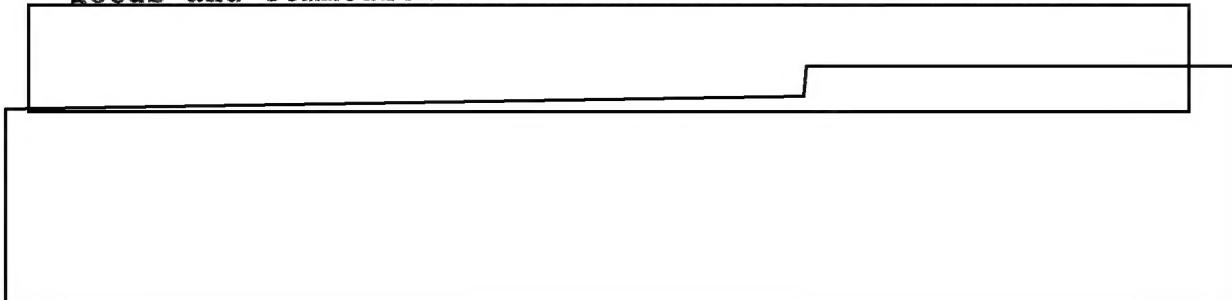
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13. During the recent missile buildup, it does not appear that anything more than a moderate, transient disruption occurred in the scheduled flow of economic goods and commodities from the Bloc to Cuba. During

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14. While it is possible that deliveries of Bloc economic cargoes to Cuba might have been heavier during the third quarter of 1962 had not the military buildup intervened, we have no way of estimating this. Insofar as deliveries under the Bloc economic development credits are concerned, the bulk of these are not scheduled to arrive until after the beginning of 1963.

Estimate of Future Cost of Economic Support to Cuba

Minimum Support

15. A forecast of the cost of minimum support to the Cuban economy requires an estimate of the minimum level of imports that Cuba must achieve in order to sustain its economy and an estimate of the extent to which Cuba's future level of exports will be adequate to finance that minimum.

16. For the purpose of this study, we have assumed that Cuban imports during 1960 represent an approximation of the minimum level required. Imports in that year had a CIF value of about \$560 million. This was a substantial reduction from the pre-Castro period, imports having averaged about \$650 million during the 1950's. The reduction stemmed primarily from the near

elimination of durable consumer goods imports, cuts in non-durable consumer goods imports, and about a 50 percent reduction in imports of capital goods. Imports of food, fuels, and raw materials probably were maintained at close to their former rates. Thus the volume and composition of 1960 imports was probably adequate, all other things being equal, to sustain economic activity at or near pre-Castro levels, but could provide for little or no economic growth.

17. Up to the present time, Cuba has maintained an export rate adequate to finance this annual minimum of approximately \$560 million. For 1963, however, it is doubtful that this will be the case. Cuba has virtually exhausted the large reserve stocks of sugar which were inherited from pre-revolution days and the coming sugar harvest is likely to be even worse than the last. Because of these factors, we estimate that the value of Cuban exports in 1963 will not exceed \$450 million and may decline to a figure as low as \$400 million. Thus the Cuban economy will require a subsidy from the Bloc of from \$110 to \$160 million in 1963 if it is to meet its minimum needs.

18. Furthermore, it must be remembered that this subsidy probably would not represent the full cost of minimum support to the Cuban economy. If, in fact, the Bloc countries are genuinely absorbing the added cost of a premium price for Cuban sugar and if, in addition, unmarketable stocks of sugar continue to accumulate within the Bloc, sharp upward adjustment of this figure--possibly by as much as \$150 million--would then be necessary.

19. After 1963, prospects are for a substantial increase in sugar production. Therefore, it is probable that Cuba will be able to finance the minimum level of imports from its own resources.

Maximum Support

20. The object of this section is to make an estimate of the cost required to develop Cuba into a communist showcase. For the purposes of this section, we have assumed that Cuba will try to achieve a rate of gross investment approximately comparable to that of other communist countries. The specific rate

assumed in this analysis is 25 percent of G.N.P. The problem then is to determine the approximate import level necessary to sustain the assumed investment rate and to compare this level to prospective export levels.

21. During 1957 and 1958 Cuba's rate of gross capital formation averaged about 19 percent of G.N.P. During the same period, annual imports of capital goods averaged about \$260 million. An increase in the investment rate to 25 percent would call for an expansion of capital goods imports, and we assume here that the expansion would be proportion to the increase in the rate of investment, i.e., an increase of 30 percent. Thus, in the early stages of a period of growth based on an investment rate of 25 percent, capital goods imports would need to rise to about \$340 million. Imports of industrial raw materials and fuels would have to increase moderately above these 1957-58 levels. Finally we assume that food imports could be held to about 1957-58 rates, or even reduced somewhat, while imports of other consumer goods are nearly eliminated. The result of these assumptions is a projected CIF import value of \$800 to \$850 million as the amount necessary at the outset of a period of rapid growth.

22. It is difficult to see how Cuban exports could provide adequate financing for this level of imports. The gap would be particularly extreme during 1963. The estimate of exports for 1963 given in the previous section was \$400 to \$450 million. It is evident, therefore, that if a maximum investment and import rate is to be achieved in 1963, the Cuban economy will require a subsidy of \$350 to \$450 million, not including the possible implicit subsidy due to the premium sugar price and support buying in excess of Bloc requirements.

23. The cost of support to the Cuban economy will decline as sugar production recovers during 1964 from the low levels of 1962 and 1963. Under an optimistic assumption concerning this recovery, Cuba could restore sugar exports to the high level achieved in 1961. Other Cuban exports will probably change only moderately so that the 1961 export total of \$650 million may be accepted as a rough approximation.

24. Beginning in 1964, therefore, in order to meet the import needs generated by the early stages of a period of high investment and growth and annual subsidy of \$150 to \$200 million from the Bloc would be required. Again, these figures may need upward adjustment to account for the premium sugar price and support buying.

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